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Message Text

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TAGS: EGEN, ECON, EFIN

SUBJECT: EXPERIENCE WITH THE CONSENSUS GUIDELINES AS OF
MAY 1, 1977

1. INTRODUCTION

A. THE UNITED STATES SUBMITS THE FOLLOWING DESCRIPTION OF
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ITS EXPERIENCE UNDER THE CONSENSUS GUIDELINES ON EXPORT
CREDITS AS OF MAY 1, 1977 IN ACCORDANCE WITH THE AGREEMENT
REACHED AT THE FIRST MEETING OF PARTICIPANTS ON APRIL 20,
1977. (TD/CONSENSUS/77.1).

B. U.S. EXPERIENCE WITH THE CONSENSUS HAS GENERALLY BEEN
SATISFACTORY. THERE HAVE BEEN RELATIVELY FEW KNOWN DE-
PARTURES FROM THE CONSENSUS GUIDELINES BUT CERTAIN ASPECTS
OF THE CONSENSUS HAVE CREATED PROBLEMS. THESE ARE DEALT

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WITH BELOW.

C. THE UNITED STATES AS OF MAY 1, 1977 HAD RECEIVED NOTIFICATIONS UNDER THE CONSENSUS PROCEDURES RELATING TO 43 TRANSACTIONS, BROKEN DOWN AS FOLLOWS:

(1) DEPARTURES FROM THE GENERAL GUIDELINES REQUIRING ADVANCE INFORMATION BUT WITHOUT THE OBLIGATION OF CONSULTATION; 5 MIXED CREDITS; 4 SPECIAL SECTORS (CONVENTIONAL POWER AND STEEL).

(2) DEPARTURES FROM THE GENERAL GUIDELINES REQUIRING PROMPT INFORMATION: 17 PREVIOUS COMMITMENTS (NEGOTIATED PRIOR TO JULY 1, 1976; 17 MATCHING FOREIGN COMPETITION.

NO ACTUAL DEROGATIONS OF THE GUIDELINES WITH THE OBLIGATION TO CONSULT OCCURRED DURING THE PERIOD.

D. THE UNITED STATES IS CONCERNED, HOWEVER, THAT THE LARGE VOLUME OF PRIOR COMMITMENTS, INCLUDING LINES OF CREDIT WITH TERMS OUTSIDE THE CONSENSUS, HAVE SEVERELY UNDERMINED THE OPERATION AND SPIRIT OF THE CONSENSUS.

THE UNITED STATES RECOGNIZES THAT THE CURRENT CONSENSUS IS
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A LIMITED UNDERSTANDING WHICH REQUIRES SIGNIFICANT BROADENING AND STRENGTHENING IF IT IS TO MORE EFFECTIVELY REDUCE COUNTERPRODUCTIVE EXPORT CREDIT COMPETITION. THE ELEMENTS OF A NEW INTERNATIONAL ARRANGEMENT ARE SET FORTH IN SECTION IV.

II. OPERATIONAL ASPECTS

A. THE PROCEDURES ESTABLISHED FOR NOTIFICATION HAVE GENERALLY PROVEN TO BE ADEQUATE. AS THERE WERE NO DEROGATIONS REQUIRING CONSULTATION, THE ADEQUACY OF THE CONSULTATION MECHANISM CANNOT BE JUDGED.

B. SPECIFIC PROBLEM AREAS AFFECTING THE OPERATION OF THE CURRENT CONSENSUS ARE AS FOLLOWS:

(1) THE "INTEREST RATE" CONCEPT REQUIRES REDEFINITION AND CLARIFICATION. AT PRESENT, IT IS UNCLEAR EXACTLY WHICH ELEMENTS AND/OR COMPONENTS OF A FINANCIAL PACKAGE ARE INCLUDED IN THE RELEVANT INTEREST RATE AND WHETHER THE RATE REFERS TO THE RATE AT DATE OF CREDIT COMMITMENT OR THE ACTUAL RATE OVER THE LIFE OF THE CREDIT, DETERMINED RETROSPECTIVELY.

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(2) THE CURRENT CONSENSUS LACKS SPECIFICATION OF A DEFINITE TRANSITION PERIOD DURING WHICH ALL EXISTING COMMITMENTS MUST BE BROUGHT WITHIN THE CONSENSUS TERMS. IN VIEW OF THE SUBSTANTIAL VOLUME OF PRIOR COMMITMENTS STILL OUTSTANDING INCLUDING GOVERNMENT LINES OF CREDIT WITH TERMS IN VIOLATION OF THE CURRENT CONSENSUS. THE OPERATION OF A NEW CONSENSUS WOULD BE SUBSTANTIALLY UNDERMINED BY THE ABSENCE OF A SPECIFIC TIME LIMIT.

(3) WITH REGARD TO THE INFORMATION EXCHANGE ON TRANSACTIONS OF MUTUAL INTEREST, THERE IS A NEED FOR CLARIFICATION OF THE BASIC INFORMATION TO BE PROVIDED IN UNCLASSIFIED

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TELEX EXCHANGES AND OF THE TIMELINESS OF RESPONSES. AT TIMES, NOT ALL INFORMATION ON A TRANSACTION HAS BEEN PROVIDED, AND SOMETIMES RANGES OF INTEREST RATES ARE CITED RATHER THAN SPECIFIC RATES. FURTHERMORE, DUE TO THE NATURE OF OPERATING PROCEDURES IN CERTAIN EXPORT CREDIT AGENCIES, INFORMATION ON POTENTIAL OFFERS OF OFFICIAL SUPPORT ARE SOMETIMES MISLEADING.

III. U.S. COMPLIANCE WITH THE CONSENSUS

A. FOR THE PERIOD JULY 1, 1976 - APRIL 30, 1977, EXIMBANK PROVIDED PROMPT INFORMATION IN SEVEN INSTANCES, RELATING TO COMMITMENTS MADE PRIOR TO IMPLEMENTATION OF THE CONSENSUS GUIDELINES, AND AN ADDITIONAL NOTIFICATION INVOLVING THE MATCHING OF A FOREIGN (SPANISH) COMPETITIVE OFFER FOR THE SALE OF TEN RAILROAD LOCOMOTIVES TO GUATEMALA. THE EXPORT VALUE OF THIS TRANSACTION WAS DOLS SIX MILLION, -- LESS THAN ONE PERCENT OF THE TOTAL CONTRACT VALUE OF NEW DIRECT LOAN COMMITMENTS MADE DURING THE PERIOD. THE TERMS OFFERED BY EXIMBANK WERE: TEN PERCENT CASH PAYMENT; EIGHT YEAR REPAYMENT, AND AN INTEREST RATE OF 8.375 PERCENT ON EXIMBANK LOAN.

B. THERE WERE NO OTHER DEROGATIONS FROM THE CONSENSUS.

IV. ELEMENTS OF A NEW INTERNATIONAL ARRANGEMENT ON OFFICIAL EXPORT CREDITS

A. AN IMPROVEMENT OF THE PRESENT CONSENSUS IS GENERALLY RECOGNIZED AS DESIRABLE AND NECESSARY. EFFORTS TO CONCLUDE SUCH AN IMPROVED INTERNATIONAL ARRANGEMENT HAVE BEEN ENDORSED BY THE LONDON ECONOMIC SUMMIT HELD IN MAY 1977.

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B. WHILE THE PRESENT CONSENSUS HAS ESTABLISHED A MECHANISM TO PROMOTE INTERNATIONAL COOPERATION IN THE EXPORT CREDIT FIELD, IT IS BOTH A LIMITED AND INFORMAL UNDERSTANDING THAT NEEDS TO BE SIGNIFICANTLY BROADENED AND STRENGTHENED TO FURTHER REDUCE COUNTERPRODUCTIVE COMPETITION AND AVOID AN ERA OF SELF-DEFEATING COMPETITION THROUGH A CREDIT WAR.

C. AN INTERNATIONAL ARRANGEMENT WITH FIRM UNDERTAKINGS SHOULD BE NEGOTIATED DURING THE FALL SO THAT IT CAN BECOME EFFECTIVE ON JANUARY 1, 1978 WHEN THE PRESENT CONSENSUS EXPIRES.

D. INTEREST RATES SHOULD REFLECT COMMERCIAL MARKET RATES. THUS, MINIMUM INTEREST RATES SHOULD INCREASE AS THE REPAYMENT PERIOD LENGTHENS. AS PRESENTLY PROVIDED BY THE CONSENSUS, INTEREST RATES COULD ALSO VARY WHEN THE CREDIT RECIPIENT IS AN INDUSTRIAL COUNTRY, AN INTERMEDIATE COUNTRY OR A DEVELOPING COUNTRY. THUS, THE INTEREST RATE SCHEDULE WOULD BE:
(IN PERCENT)
REPAYMENT PERIOD 2 TO 5 YRS.; COUNTRIES CONSIDERED:
INDUSTRIAL - 8.00; INTERMEDIATE - 7.75; DEVELOPING-7.50.

REPAYMENT PERIOD OVER 5 TO 8.5 YRS.; COUNTRIES CONSIDERED:
INDUSTRIAL - 8.50; INTERMEDIATE -8.00; DEVELOPING- 7.75.

REPAYMENT PERIOD OVER 8.5 TO 10 YEARS; COUNTRIES CONSIDERED; INDUSTRIAL - 9.00; INTERMEDIATE - 8.50; DEVELOPING - 8.00.

REPAYMENT PERIOD OVER 10 TO 12 YRS.; COUNTRIES CONSIDERED:
INTERMEDIATE - 9.00; DEVELOPING - 8.50.

E. MAXIMUM REPAYMENT TERMS SHOULD GENERALLY BE 10 YEARS TO DEVELOPING COUNTRIES AND 8 AND ONE HALF YEARS TO OTHERS.
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HOWEVER, CERTAIN EXCEPTIONS WILL HAVE TO BE MADE IN ORDER TO COVER THE SECTORS WHICH ARE NOW EXCLUDED FROM THE CONSENSUS.

F. LOCAL COST SUPPORT SHOULD NOT BE PROVIDED BY OFFICIAL EXPORT CREDIT AGENCIES. SIMILARLY, OFFICIAL SCHEMES, SUCH AS EXPORT INFLATION INSURANCE AND EXCHANGE RISK INSURANCE, WHICH PROVIDE A COMPETITIVE ADVANTAGE TO THE COUNTRY'S EXPORTERS SHOULD BE PROHIBITED.

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G. PRIOR COMMITMENTS SHOULD BE BROUGHT INTO CONFORMITY WITH THE PROVISIONS OF THE NEW ARRANGEMENT AT THE EARLIEST POSSIBLE DATE, BUT NO LATER THAN JUNE 30, 1978. A DETAILED LIST OF TRANSACTIONS COVERED BY PRIOR COMMITMENTS SHOULD BE PROVIDED.

H. PROCEDURES FOR PRIOR NOTIFICATION, PROMPT INFORMATION, INFORMATION EXCHANGE AND CONSULTATIONS SHOULD BE MADE MORE SPECIFIC.

I. THE ONLY EXCEPTIONS TO COVERAGE UNDER THE NEW ARRANGEMENT SHOULD BE:

(1) SHIPS COVERED BY THE TERMS OF TEH OECD UNDERSTANDING ON EXPORT CREDITS FOR SHIPS -- TERMS OF UNDERSTANDING WILL APPLY TO PARTICIPANTS.

(2) SATELITE GROUND STATIONS AND SATELITES (FOR MATURITIES ONLY) -- TO WHICH THE TERMS OF THE OECD AGREEMENT ON SATELITE GROUND STATIONS WILL APPLY;

(3) AGRICULTURAL COMMODITIES; AND

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(4) MILITARY EQUIPMENT.

J. THE MIXED CREDIT PROVISION OF THE CONSENSUS SHOULD BE STRENGTHENED BY RAISING THE PERCENTAGE OF GRANT ELEMENT WHICH WOULD BE EXEMPT FROM THE CONDITIONS OF THE ARRANGEMENT AND PROVIDING FOR INCREASES IN THE PERCENTAGE OF GRANT ELEMENT IN THE OTHER ASPECTS OF THE PRESENT CONSENSUS.

K. THERE SHOULD BE GREATER CLARITY OF THE MEANING OF THE VARIOUS TERMS USED IN THE ARRANGEMENT VANCE

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Disposition Approved on Date:
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